

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, Suite 1700
Sacramento, California 95814**

**File No. RH 394
August 21, 2001**

**SUBJECT: PROGRAM FOR THE INVESTIGATION AND PROSECUTION
OF AUTOMOBILE INSURANCE FRAUD**

UPDATED INFORMATIVE DIGEST

Statement of Specific Purpose

The Insurance Commissioner of the State of California (Commissioner) proposes to amend Subchapter 10, Article 4, Sections 2698.61, 2698.62, 2698.65, 2698.66 and 2698.67 title 10, Chapter 5 of the California Code of Regulations (CCR) regarding the program for investigation and prosecution of automobile insurance fraud. The purpose of the proposed amendment is to implement, interpret and make specific the provisions of the California Insurance Code (CIC) sections 1872.8 which requires the Commissioner to assess and distribute certain funds to California district attorneys for the purpose of prosecuting automobile insurance fraud cases.

The proposed amendment of these new provisions is necessary to implement, interpret and make specific the provisions of CIC section 1872.8. The proposed action would specify the procedure for undertaking the assessment, the procedure by which district attorneys may apply for grant funding, and the standards for reporting and auditing the grantees use of grant funds and performance under the grant program.

A public hearing was held on December 15, 2000. Comments were received both at the public hearing and during the comment period. On June 25, 2001, the Commissioner noticed changes to the original proposed rulemaking text. No comments were received in response to this notice. The Final Statement of reasons submitted herewith contains specific discussions of the changes and the reasons therefore comment summaries and responses.

Summary of Proposed Provisions

The effect of the specific regulations is as follows:

Section 2698.61 Definitions

This section would amend existing definitions, add new definitions, and define the terms utilized in these new provisions.

Section 2698.62 Annual Fee

This section would delete the existing section and replace it with a new section which maintains the current level of the assessment paid per insured vehicle at one-dollar (\$1.00) and make specific the calculation of the assessment as well as provide for a period after which payment of the assessment would be delinquent.

Section 2698.65 Application Procedure

The amendment to this subsection makes deletions to the existing text to remove outdated references and to conform certain text to make uniform and clear the nomenclature and, in one instance, make more specific a provision relating to the types of activity that need be reported.

Section 2698.66 Budget Proposal

This section amends the existing procedure for the preparation and contents of a proposed budget setting forth in line item detail estimates of the applicant's program cost. The proposed amendments in this section further clarify the general guidelines for allowable and non-allowable costs that may be included in the proposed budget as well as provide a mandatory uniform definition of indirect costs. This section further describes a process for budget modifications.

Section 2698.67 Grant Reporting and Audit

This section proposes amendments to the requirement that each applicant submit an annual report reflecting the fiscal and program activity of the grant award and the timing of the submission of such reports. Subsection (c) proposes an amendment that provides a uniform standard for the reporting and auditing of program fiscal activity. Finally, subsection (h) adds a requirement that the grantees cooperate with the Commissioner in the undertaking of any audits and provides for allocation of the costs for the same.